EVALUATION OF THE FINANCIAL CONDITION OF THE MASSACHUSETTS HOUSING FINANCE AGENCY'S "SHARP" LOAN PORTFOLIO

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EXECUTIVE SUMMARY

During the mid 1980's, the State Housing Assistance for Rental Production ("SHARP") and Residential Development Action Loan ("RDAL") programs were created under the auspices of the Commonwealth of Massachusetts' Executive Office of Communities and Development, the Massachusetts Housing Finance Agency ("MHFA"), and other public and private entities to help finance the construction of mixed-income rental housing throughout the Commonwealth. These programs were initiated during a period of sustained real estate appreciation which led to a widespread shortage of housing that was affordable to low and moderate income families.

In conjunction with first mortgage loan financing provided by MHFA, the SHARP and RDAL programs were designed to help support the annual operating costs of new mixed-income developments during their early years of operations. It was assumed that the total annual operating and financing costs of new mixed-income developments could not initially be sustained by the development's annual rental income, which included below-market rental rates paid by lower income families. Funding under the SHARP and RDAL programs was designed to decrease over time on the assumption that the projected net operating income of the properties would increase, due to escalating rents on the market-rate units, while financing expenses remained constant.

Between 1984 and 1989, MHFA originally funded approximately $837 million in non-recourse first mortgage loans to developers of 77 mixed-income properties (approximately 9,275 rental units). These SHARP and RDAL-assisted first mortgage loans (hereinafter collectively referred to as MHFA's "SHARP loans") were made with funds MHFA borrowed by issuing bonds. These SHARP loans, and the properties that secure them, are the focus of this report.

Shortly after the SHARP and RDAL programs began full-scale production, the real estate market in the Commonwealth began to weaken. This was principally due to a general downturn in the region's economy and changes in federal income tax laws governing the investment of funds in real estate ventures. In the late 1980s, a once over-heated housing market began a steady decline that would last for several years.

Since the early 1990s, MHFA's SHARP loan portfolio has experienced signs of real financial distress. Many of these loans are currently non-performing; that is, the borrowers cannot make the required principal and interest payments to MHFA. More of these loans are expected to become non-performing in the near future. The non-performing nature of these loans is largely due to lower-than-expected levels of improvement in the operating performance of the properties, which has failed to keep pace with the scheduled reduction in SHARP and RDAL assistance from the Commonwealth.

Detailed analyses of the expected future operations of the 77 properties that secure MHFA's SHARP loans indicate that if the status quo is maintained, these properties will not generate sufficient net operating income over the next 15 years to enable the borrowers to meet their annual debt service obligations to the MHFA. MHFA principally depends on receiving such debt service payments from its borrowers to make its scheduled debt service payments on its bonds.

While MHFA cannot increase the amount of SHARP and RDAL assistance received from the Commonwealth, the future cash-generating performance of the 77 mixed-income properties can be improved. Independent analysis of the financial operations of these properties indicates that, as a portfolio, more aggressive market-based management of the properties could generate a significant improvement in financial performance.

Improved property-level operating performance alone will not, however, enable the borrowers to make debt service payments to MHFA sufficient to satisfy MHFA's obligations to its bondholders. Only by taking the additional step of facilitating recapitalizations of the investment partnerships that own the underlying properties will the borrowers be able to make payments to MHFA that are sufficient to satisfy MHFA's bond obligations.

These important actions will not call upon additional public financial assistance, will not put bondholders at risk, yet will maintain the availability of decent, safe, and affordable housing units for low and moderate income individuals and families.

INTRODUCTION

The primary objective of this report is to evaluate the financial condition of a portion of the Massachusetts Housing Finance Agency's ("MHFA" or "Agency") assets commonly known as its "SHARP" loan portfolio.[1] Senior management of MHFA commissioned this study because (i) of the significant size of the SHARP loan portfolio, (ii) many borrowers are already having difficulty making the required annual debt service payments on these loans, (iii) the Agency depends upon debt service payments on the loans to enable it to make payments on the bonds it issued to fund the loans, and (iv) financial assistance currently being provided to the borrowers by the Commonwealth of Massachusetts is scheduled to be reduced and then eliminated, making it even more difficult for borrowers to meet their financial obligations to the Agency. More specifically:

- The SHARP loan portfolio represents approximately 20% the Agency's $4.3 billion of assets (which primarily consist of mortgage loans, investments, and cash reserves). The SHARP loan portfolio comprises non-recourse first mortgage loans secured by 77 multi-family properties located throughout the Commonwealth of Massachusetts. MHFA originally funded approximately $837 million in SHARP loans to borrowers in connection with the acquisition and development of these 77 properties. [2]

- MHFA functions much like a bank. It borrows money by issuing taxable and tax exempt bonds and uses that money to provide mortgage loans to owners of multi-family and single-family housing. MHFA receives no direct financial assistance from the state or federal governments. MHFA must, therefore, receive enough money each year from its mortgage loans to make the required payments on the bonds it has issued and cover its general and administrative expenses. In other words, unless substantially all of the SHARP borrowers make their full scheduled debt service payments to the Agency on the SHARP loans, the Agency will not have sufficient pledged revenues available to make the full scheduled debt service payments on the bonds it has issued.

- Such a deficiency in pledged revenues would result in either (i) a call on the Commonwealth's "moral obligation" to replenish that portion of available capital

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[1] While commonly referred to as MHFA's "SHARP" loans, these first mortgage loans made by MHFA are distinct from other junior mortgage loans made by the Commonwealth of Massachusetts under the Commonwealth's SHARP and RDAL financial assistance programs. See, also, note 3.

[2] The 77 properties which secure the MHFA SHARP loan portfolio were selected from a broader portfolio of 87 properties assisted by the Commonwealth of Massachusetts through the SHARP and RDAL programs. Certain of the properties from this broader portfolio were excluded from this study because MHFA did not provide the first mortgage financing.

reserves that the Agency would need to use to enable it to make the full scheduled debt service payment on its bonds or (ii) a direct obligation of the Agency to reimburse bond insurers for any portion of a debt service payment the insurers would have to make to the bondholders (on the Agency's behalf) under the terms of their bond insurance agreement.

- Each of the borrowers in MHFA's SHARP loan portfolio currently receives financial assistance from the Commonwealth of Massachusetts, in the form of additional loans administered by the Agency under the SHARP and RDAL programs, to supplement the funds available from operating revenue to make required annual debt service payments on the SHARP loans. The SHARP and RDAL financial assistance received from the Commonwealth generally represents a major source of funds used by borrowers to pay the debt service due on the SHARP loans. Annual SHARP and RDAL assistance is declining (under the terms of the original loan contracts) and is largely scheduled to terminate within 7 years.[3]

- Many of the SHARP loans are already "non-performing"; that is, many of the borrowers are currently unable to make the full annual debt service payments to the Agency as required, even with the current levels of SHARP and RDAL assistance from the Commonwealth.

- With the annual SHARP and RDAL assistance largely scheduled to terminate in 2004, there is a legitimate cause for concern at the Agency with respect to how it will continue to manage its financial matters relating to this loan portfolio.

- Based on the current level of operations of the 77 properties that secure the SHARP loans, a possibility exists that the projected annual payments made by the borrowers to the Agency will be insufficient to fund the Agency's required annual debt service payments on its bonds. One of the primary objectives of this study is to assess how this possible outcome can be avoided.

This report necessarily focuses on three principal financial outflows and inflows: namely, future contractual debt service payments on the Agency's bonds, future contractual SHARP and RDAL assistance from the Commonwealth of Massachusetts, and future expected operating performance from the 77 properties that secure the SHARP loans. Comprehensive analyses of each of the bonds, loans, properties, and borrower partnerships has been prepared to more completely describe and quantify the financial issues facing

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[3] The borrowers under the SHARP loans have additional financial obligations to the Agency in connection with the loans made to them under the SHARP and RDAL loan programs. Repayment to the Agency of those additional (and subordinate) financial obligations is outside the scope of this report.

MHFA as owner of the SHARP loan portfolio. These analyses are summarized later in this report.

While the analyses prepared are numerous and often complex, certain simplifying factors are present. The future debt service payments on the both Agency's bonds and the SHARP loans are fixed by contract. The same is true for the remaining SHARP and RDAL assistance from the Commonwealth. The reason, then, to analyze the expected future operating performance of the 77 properties is that the Agency believes that upon the planned termination of annual SHARP and RDAL assistance, it is unlikely that the borrowers will be able to satisfy their financial obligations under the terms of the SHARP loans. Consequently, a major focus of this financial evaluation has been to develop a detailed understanding of both the current and potential operating performance of the 77 properties that secure the SHARP loans to ensure that net operating income (cash flow before debt service) is maximized.

It is important to note that this financial evaluation does not focus as extensively on managing the Agency's corresponding bond liabilities (all or a portion of 22 outstanding bond series). This is so for two reasons: (i) the majority of the outstanding bonds relating to the SHARP loans have relatively attractive (low) interest rates and (ii) the majority of that bond indebtedness cannot be refunded (refinanced) until 2004.

The remainder of this report is organized as follows: a brief description of the background of the development of the SHARP and RDAL assistance programs, a discussion of the analyses performed to evaluate MHFA's current financial position with respect to its SHARP loan portfolio, and recommended courses of action for improving that financial position.

BACKGROUND

The State Housing Assistance for Rental Production ("SHARP") Program and its legislative cousin, the Residential Development Action Loan ("RDAL") Program, were created in 1983 and 1987, respectively, as public initiatives to construct affordable rental housing in what had become an increasingly unaffordable market. By combining the strengths of the private sector (to build the housing) and the public sector (to provide needed financial resources), it was hoped that a new type of affordable housing model could be constructed -- a housing model that, while initially publicly-supported, would in time be able to operate without public subsidies.

Five parties were essential to the development of the SHARP and RDAL programs: (i) the developer/borrowers, who were responsible for the construction and operation of the units created, (ii) MHFA, which issued bonds to finance the construction of the properties, (iii) the bondholders, who purchased the bonds issued by MHFA, (iv) the Commonwealth of Massachusetts, which provided the SHARP and RDAL assistance loans to the properties, and (v) the tenants, that created the demand to rent the affordable and market-rate housing units that were built.

In short, SHARP and RDAL were financial assistance programs offered by the Commonwealth of Massachusetts, structured as loans, administered by MHFA, and available to developers of multi-family housing willing to maintain at least 25% of the units affordable to low and moderate income families. SHARP and RDAL assistance was essentially designed as a "gap filler" to enable both developers (the borrowers) and MHFA (the lender) to commence the financing and development of new, quality multi-family housing. The "gap" to be filled was that portion of the annual debt service payment for a newly-constructed mixed-income development that could not be initially supported by the projected net operating income of the property. That gap, however, was expected to decrease over time as net operating income rose, while the annual debt service obligation remained constant.

In connection with MHFA's funding of its SHARP loans, SHARP and/or RDAL assistance was made available to approved borrowers in amounts sufficient to fund the projected annual debt service gaps on a decreasing basis during the first 15 years of the SHARP loan. Beginning in the sixteenth year, it was projected that each development would be financially self-sufficient and could, thereafter, begin to repay the cumulative amount of SHARP and RDAL assistance advanced over the previous 15 years.[4] Repayments by borrowers were expected to be pooled by MHFA to fund additional affordable housing in the future.

Such a loan assistance program could have worked if the original operating assumptions proved true and the resulting operating incomes improved steadily each year. The assumptions made, however, proved unrealistic, as the current difficulties being experienced by the borrowers in making their full annual debt service payments attest.

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[4] The annual SHARP and RDAL assistance loans made by the Commonwealth were expected to be repaid upon the earlier to occur of the sale or refinancing of the property, or upon the maturity of MHFA's SHARP first mortgage loan.

THE FINANCIAL POSITION OF MHFA's SHARP LOAN PORTFOLIO

As noted earlier, the Agency originally funded approximately $837 million of SHARP loans. The required annual principal and interest payments payable by the borrowers under these loans total approximately $85 million per year, and remain constant at that level for the next 15 years.

To raise the money to make these loans, MHFA issued taxable and tax-exempt bonds. The required annual principal and interest payments payable by the Agency under these bonds (that can be appropriately allocated to the SHARP loans) currently total approximately $82 million per year. These principal and interest payments are generally scheduled to decline over the next 15 years due to successful liability management initiatives (primarily bond refundings) previously undertaken by the Agency. Nonetheless, a significant portion of the annual debt service payments receivable by the Agency under its SHARP loans is needed to meet the Agency's obligations under the bonds. This relationship is illustrated in Figure 1.

As a condition of issuing the bonds, however, the Agency was required to establish various cash reserves in order to further assure the bondholders that the required principal and interest payments would be made in a timely manner. The amount of reserves required under each bond series differed, but generally equaled about one year's principal and interest payments on the applicable bond series. Upon funding the bonds, the Agency invested the cash reserves in long-term, interest-bearing securities. The interest earnings on the reserves (which can be appropriately allocated to the portion of bonds that funded SHARP loans) are approximately $5 million per year. However, a portion of these available interest earnings are needed to fund bond insurance premiums and trustees' fees that are expected to range from approximately $2 million to $1 million per year over the next 15 years. The annual inflows represented by interest earnings less bond insurance premiums and trustees' fees (net interest earnings) are available to help the Agency fund its required annual principal and interest payments under the bonds. Figure 2 shows the effect (in yellow) of offsetting such annual net interest earnings against the required annual principal and interest payments due from the Agency under the bonds.

While Figure 2 graphically depicts the relationship between amounts due from the borrowers under the SHARP loans and amounts due from the Agency under the bonds, it assumes receipt of full annual debt service from the borrowers under the SHARP loans and does not reflect the possibility of lower receipts. Recalling the earlier discussion of the architecture of the SHARP and RDAL programs, original expectations were that the combination of property-level net operating income and financial assistance from the Commonwealth would enable the borrowers to meet their payment obligations under the SHARP loans. Unfortunately, these expectations have not been met; nor, as explained below, are they likely to be met for the foreseeable future.

In order to establish more realistic expectations, the Agency retained Bonz / REA to prepare projections of the likely net operating income for each of the 77 properties in the SHARP loan portfolio, assuming each property continues to operate substantially in the same manner as it does today (i.e., maintain the "status quo"). These projections were required to take into account:

- each property's specific characteristics,
- the current and anticipated future market conditions affecting the property,
- the continuation of existing levels of affordable units, and
- no future regulatory policies which might adversely affect property operations.

Figure 3 illustrates the relationship between the projected net operating income from the 77 properties and the debt service obligations under both the SHARP loans and bonds. Figure 3 illustrates that the level of projected net operating income from the 77 properties will result in payments from the borrowers which will be insufficient to enable the Agency to meet its obligations to its bondholders.

It should be noted that projecting future cash inflows and outflows from any real estate asset is both challenging and imprecise. Financial conventions are, therefore, adopted to promote consistency with respect to the way in which particular line items of revenue and expense are expected to change over time. The accepted convention is to trend forward the value of a particular revenue or expense variable at a constant rate of change over time. This accepted convention was employed in the financial projections prepared by Bonz / REA. Specifically, (i) rents on market rate units were projected based on anticipated long-term rates of change, reflecting historic patterns and future market conditions and (ii) operating expenses were increased at an anticipated inflation rate, except for water and sewer expenses which, for many properties, were expected to increase faster than the rate of inflation.

In addition to the general challenges of projecting future cash inflows and outflows, income-producing real estate is subject to cyclical variations in financial performance. Over any period as long as 10 or 15 years, real estate markets "cycle"; that is, they have peaks and valleys in both supply and demand, which causes peaks and valleys in both achievable rents and levels of net operating income. The growth rates used in the income and expense projections reflect anticipated long-term averages; they do not reflect specific cyclical market or economic changes. McCall & Almy has supplemented the Bonz / REA projections of net operating income of the 77 properties to include a cyclical downturn (on a portfolio-wide basis) during the 15-year projection period. The timing and magnitude of this downturn have (rather arbitrarily) been assumed to be 3% in 2004, 7% in 2005, 10% in 2006, 7% in 2007, and 3% in 2008. While the timing and magnitude of any real estate cycle is impossible to predict with accuracy, not assuming some measure of cyclical deterioration in operating

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performance over a 15-year projection period would be imprudent. To be conservative, however , McCall & Almy has assumed no cyclical improvement in operating performance. Figure 4 displays the impact of the assumed cyclical downturn in the status quo net operating income of the 77-property portfolio.

SHARP and RDAL assistance from the Commonwealth, along with other contractual revenue sources[5], represent the next layer of additional expected future cash inflows available to help the borrowers satisfy their debt service payment obligations. It should be noted, however, that this assistance is generally received by the individual properties only to the extent that the state legislature funds the annual appropriation for the SHARP and RDAL programs. Figure 5 displays (in green) the impact of the addition of this remaining financial assistance (assuming full funding by the legislature) on the ability of the borrowers to meet their financial obligations under the SHARP loans as well as the ability of the Agency to meet its financial obligations under the bonds.

Figure 5 paints a rather bleak picture. It projects that, even with the full benefit of the remaining SHARP and RDAL assistance, the 77 properties will not generate sufficient cash for the borrowers to meet their collective debt service obligations to the Agency and that, as a result, the Agency will not be able to meet its debt service obligations to its bondholders, unless the Agency is able to fund its resulting annual debt service shortfalls from either unrelated cash reserves or other means. The Agency's projected annual shortfalls with respect to the payment obligations on its bonds total approximately $255 million over the next 15 years.

MHFA has obligations to its bondholders, to its borrowers, and to the tenants who live in the 77 properties that secure the SHARP loans. The borrowers, in turn, have obligations to MHFA. Based on the status quo, the borrowers, as a group, are unable to meet their obligations to the Agency. This, in turn, raises a serious question as to the Agency's ability to meet its obligations to its bondholders. It is, therefore, imperative that the Agency be satisfied that the current levels of property net operating income represent the highest levels attainable, given the particular operating characteristics of each property. With this objective in mind, the Agency directed Bonz / REA and Byrne McKinney & Associates to prepare individual analyses of how each of the 77 properties could be reasonably expected to perform from a financial perspective, assuming income and expenses of operation were managed to meet a market-based standard.

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5 The Agency required certain borrower partnerships to purchase additional financial assets (e.g., zero-coupon bonds) to ensure that additional capital was available to help meet annual debt service obligations after the planned termination of the SHARP and RDAL assistance from the Commonwealth.

In order to determine how the properties could perform, Bonz / REA and Byrne McKinney & Associates:

- made site visits to each of the properties,
- analyzed relevant local market operating information,
- reviewed the prior financial performance of the properties,
- interviewed the existing management of the properties to discuss property-specific operating issues,
- solicited owner responses to such operating issues,
- prepared preliminary market-based projections of future rent, expense, and net operating income levels for the properties,
- reviewed the projections with Agency asset managers assigned to the properties and incorporated feedback, where appropriate, and
- aggregated the individual projections into a portfolio projection of expected net operating income for the next 15 years.

This analysis indicated that the 77 properties, as a portfolio, have the potential to generate a significant improvement in financial performance. Specifically, the aggregated analyses indicate that the 77 properties could generate approximately $170 million of additional net operating income over the next 15 years if the properties are managed to their full market potential -- without compromising the number of affordable units within the SHARP portfolio. Figure 6 displays (in blue) the additional debt servicing capacity associated with such operating improvements. As can been seen in Figure 6, however, *even with this additional net operating income, the income available for debt service payments with respect to the mortgage loans will not be sufficient to cover the scheduled debt service payments on the Agency's bonds.* The remaining projected shortfall over the 15-year projection period totals approximately $85 million.

COURSES OF ACTION

The Agency and the SHARP borrowers must focus on generating additional revenue from the 77 SHARP properties. Maximizing property-level net operating income is a necessary first step. In an ideal world, the borrowers would make all of their required debt service payments when due. Unfortunately, the 77 properties will not generate enough net operating income for this to occur. To address this real problem, MHFA intends to exercise its rights as lender under the SHARP loan documents to establish market-based operating and management goals and thereby ensure that property-level financial performance is maximized.

Where necessary, MHFA will also exercise its remedies as lender. Because many of the 77 properties are currently unable to make their full annual debt service payment, if they continue to remain unable to do so, they will be subject to foreclosure.

The Agency can also generate additional revenue by working with the borrowers to recapitalize the borrower partnerships with additional capital. Paradoxically, the properties remain a good investment for their owners, and for potential new owners, even in circumstances where the property does not generate sufficient net operating income to pay ongoing debt service. The following background will help explain why this is so:

- When the properties were originally financed and developed, it was generally expected that no annual cash flow would be available for distribution to the owners for at least fifteen years, unless the real estate markets significantly outperformed the owners' original expectations. This was consistent with both the philosophy and structure of the SHARP and RDAL programs. Owners, nonetheless, invested millions of dollars to help capitalize the development of the properties. They were generally willing to make these investments because of the significant income tax benefits associated with owning a property assisted by the SHARP and/or RDAL programs.

- The income tax benefits came in two forms: (i) low-income housing tax credits and (ii) relatively large taxable losses that could be used to offset other taxable income and defer tax liabilities for an extended period of time. The relatively large taxable losses stemmed from the structuring of the SHARP and RDAL financial assistance as a loan rather than a grant. Both the credits and the losses had financial value and, consequently, investors were willing to pay for them.

- Each of the properties which secures a SHARP loan still possesses one or both of these tax attributes (although in a different mix), and investors are still willing to pay for them.

- Borrowers who are now unable to meet their debt service obligations are faced with the likelihood of loan default and loan foreclosure, which would result in significant adverse tax consequences for their investors.

- The value to investors of continuing to own the properties and defer current and future income taxes creates a strong incentive to make additional capital contributions to the existing borrower partnerships.

Were MHFA to agree to forbear from exercising its foreclosure remedies for a period of approximately ten years, existing investors and/or new investors could be expected to recapitalize the existing borrower partnerships with additional capital in exchange for the right to receive future tax deferral. Such recapitalization proceeds could then be remitted to

MHFA and deposited in interest-bearing working capital reserves to help satisfy Agency bond debt service obligations. In this regard, detailed projections of the income tax benefits associated with owning each of the 77 properties have been prepared along with analyses of the current income tax position of each borrower partnership. Assuming that partnership recapitalizations take approximately 18 months to complete, these projections indicate that the borrower partnerships which own the 77 SHARP properties could be expected to generate total recapitalization proceeds and interest earnings (at 5%) of approximately $95 million over the 15-year projection period. Figure 7 displays (in black) the application of the expected recapitalization proceeds and associated interest earnings.

Figure 7 indicates that a comprehensive strategy of maximizing property-level net operating income and recapitalizing the ownership structure of the 77 properties that secure the SHARP loans will enable the Agency to satisfy its bond obligations. Any less rigorous asset management strategy is likely to yield less favorable results and call into question the Agency's ability to meet its bond obligations.

While many of the expected monetary flows depicted in Figure 7 are contractual in nature (i.e., debt service payments and SHARP and RDAL assistance), Figure 7 is arguably a synthesis of many financial and operating assumptions. It is important to note, however, that to be conservative, the following financial and operating assumptions were *not* employed in this study:

- The availability of additional Low Income Housing Tax Credits for the 77 properties, even though existing tax laws may entitle some of the 77 properties to claim future tax credits and, thereby, raise additional capital.

- The conversion of existing affordable units to market rate units, even though a modest conversion of units, if ultimately required, could materially increase the aggregate net operating income of the 77 properties.

- Additional bond refundings (other than a $17 million refunding currently in process) to lower the contractual annual debt service payments on the Agency's bonds, even though by 2004 the majority of the approximately $700 million of then outstanding bond indebtedness relating to the SHARP loan portfolio will be eligible for refunding.

- Future partnership recapitalizations upon the termination of established forbearance periods.

CONCLUSION

The financial challenges facing MHFA relating to its SHARP loan portfolio are significant. Projected shortfalls with respect to meeting the debt service obligations under the Agency's bonds argue for prompt intervention and appropriate action by the Agency.

Appropriate action includes (i) ensuring that the 77 properties are more aggressively managed to market-based standards to maximize attainable levels of net operating income and (ii) facilitating the recapitalization of existing ownership entities to generate additional capital that can be paid to MHFA to help the Agency meet its bond obligations.

The conclusion of this financial evaluation is that if the actions described above are taken, the financial performance of the SHARP loan portfolio will be significantly improved and the SHARP loan portfolio will generate enough cash inflows to the Agency to enable it to meet its bond obligations. Perhaps as important, MHFA will be able to sustain its central mission to help produce and maintain affordable housing, preserve its unblemished reputation in the capital markets, and maintain its good standing with the state legislature as an effective and efficient financial intermediary.

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SHARP / RDAL PORTFOLIO SUMMARY

COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS

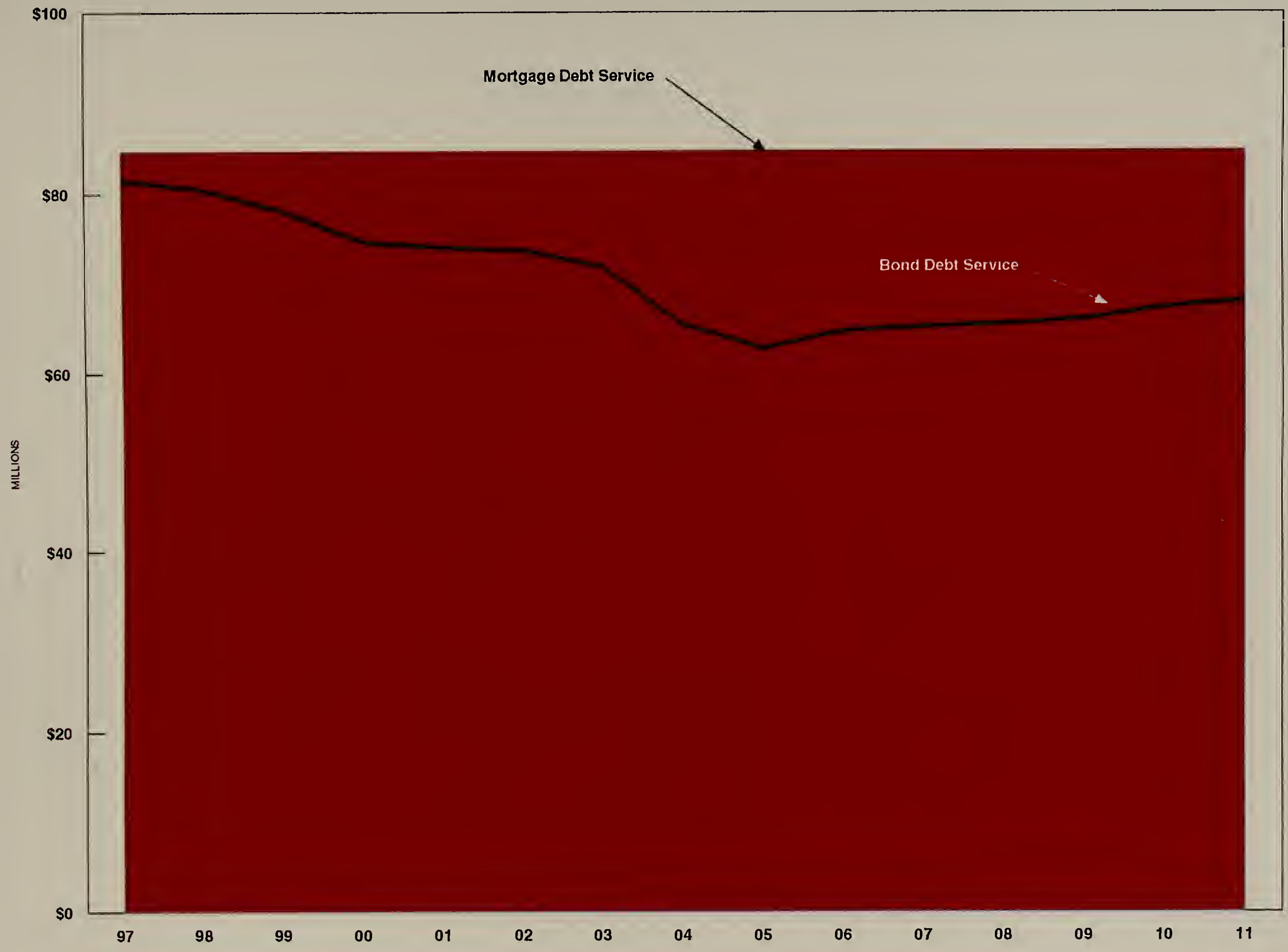

FIGURE 1

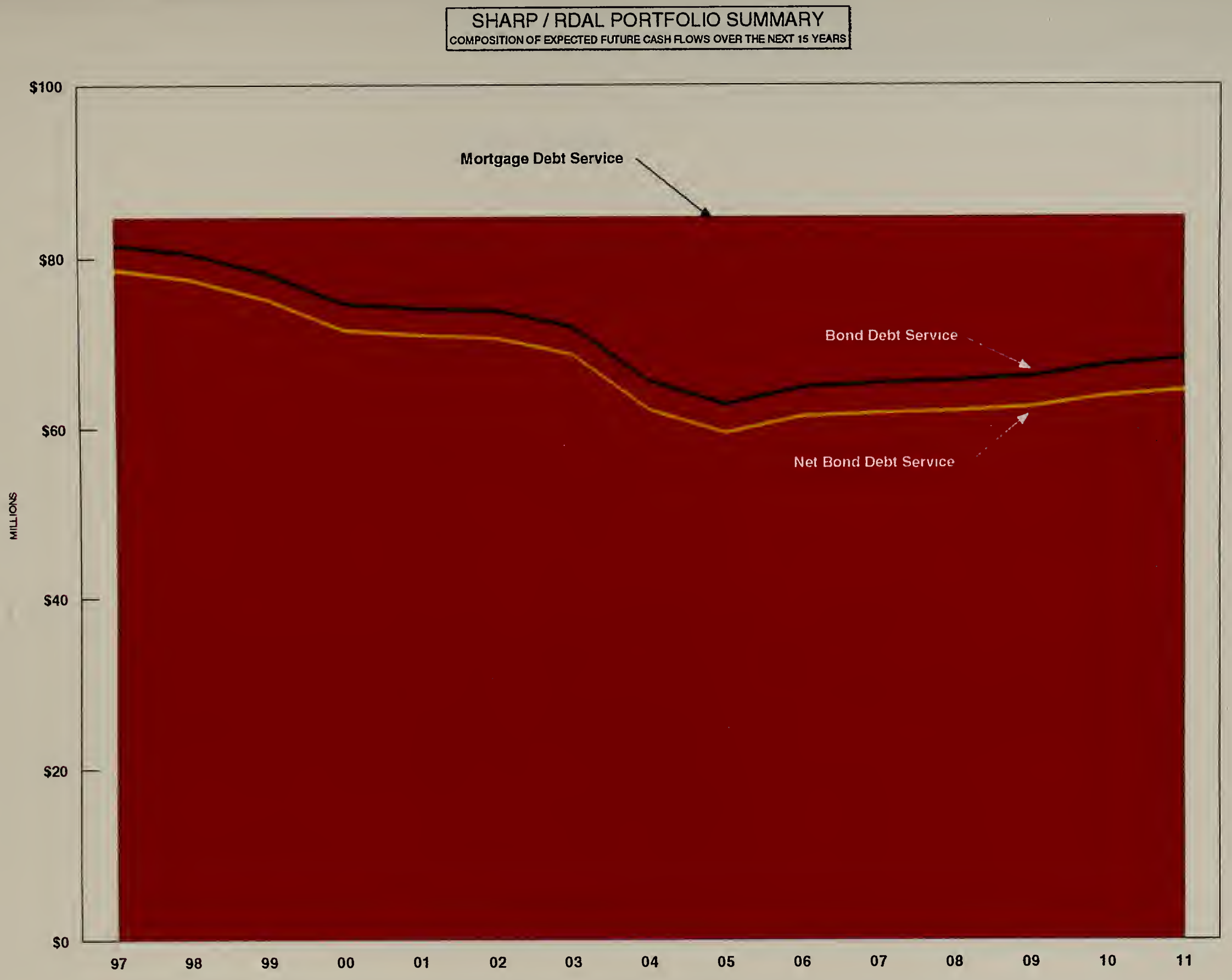
SHARP / RDAL PORTFOLIO SUMMARY
COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS
$100
$80
$60
$40
$20
$0
MILLIONS
Mortgage Debt Service
Bond Debt Service
Net Bond Debt Service
97
98
99
00
01
02
03
04
05
06
07
08
09
10
11

FIGURE 2

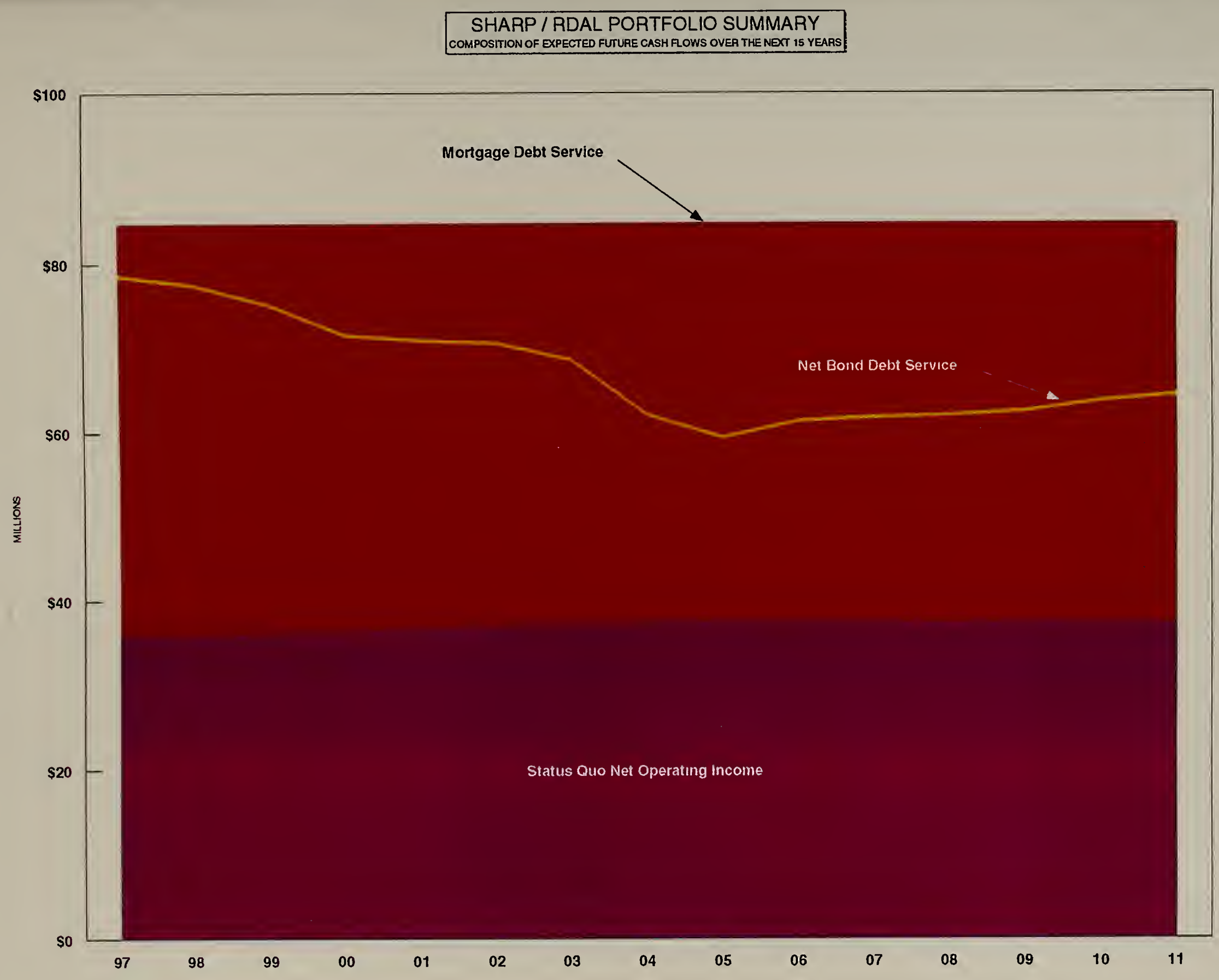
SHARP / RDAL PORTFOLIO SUMMARY
COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS
$100
$80
$60
$40
$20
$0
MILLIONS
Mortgage Debt Service
Net Bond Debt Service
Status Quo Net Operating Income
97
98
99
00
01
02
03
04
05
06
07
08
09
10
11

FIGURE 3

SHARP / RDAL PORTFOLIO SUMMARY

COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS

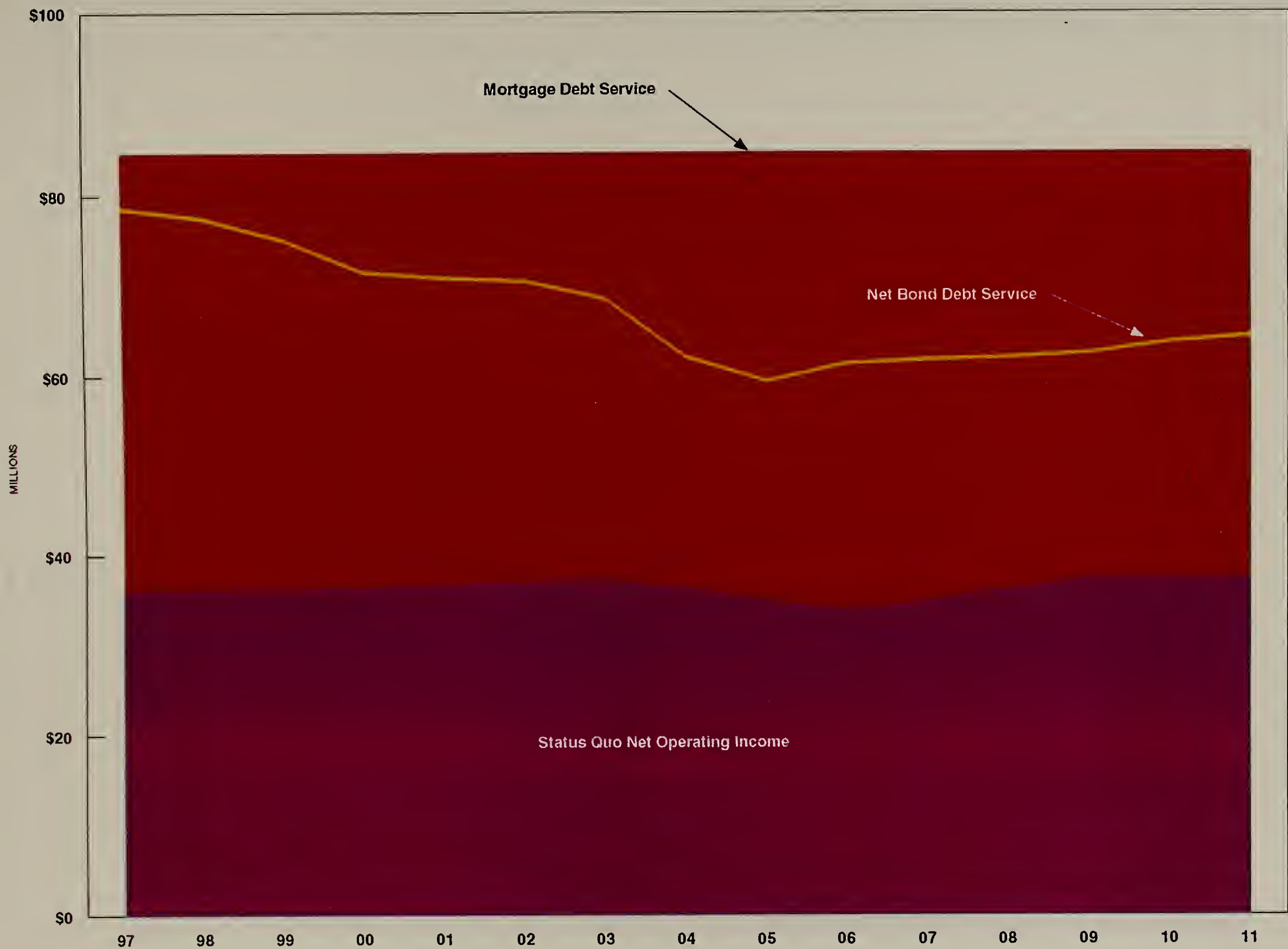

FIGURE 4

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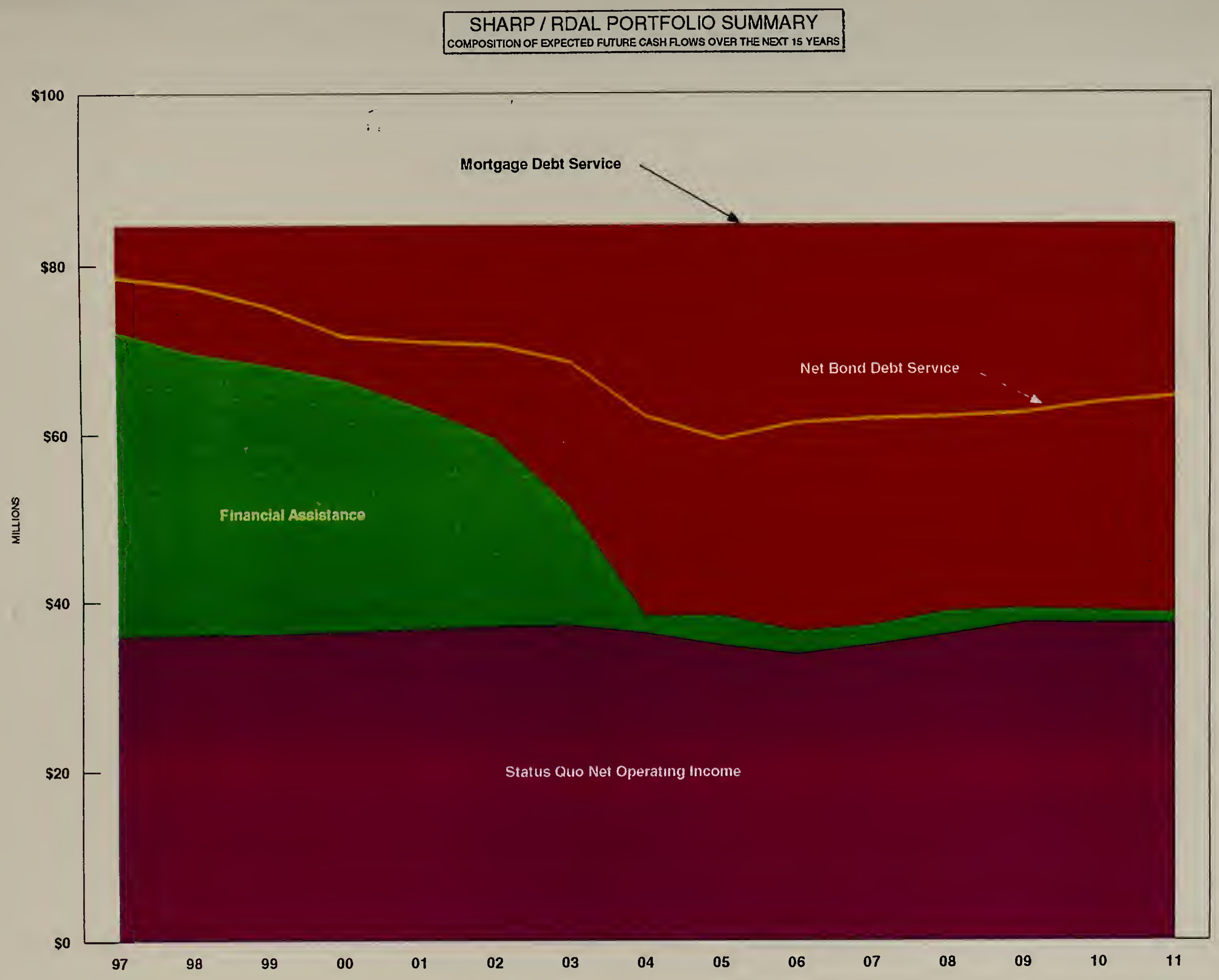

SHARP / RDAL PORTFOLIO SUMMARY
COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS
Mortgage Debt Service
Net Bond Debt Service
Financial Assistance
Status Quo Net Operating Income
MILLIONS
$100
$80
$60
$40
$20
$0
97
98
99
00
01
02
03
04
05
06
07
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FIGURE 5

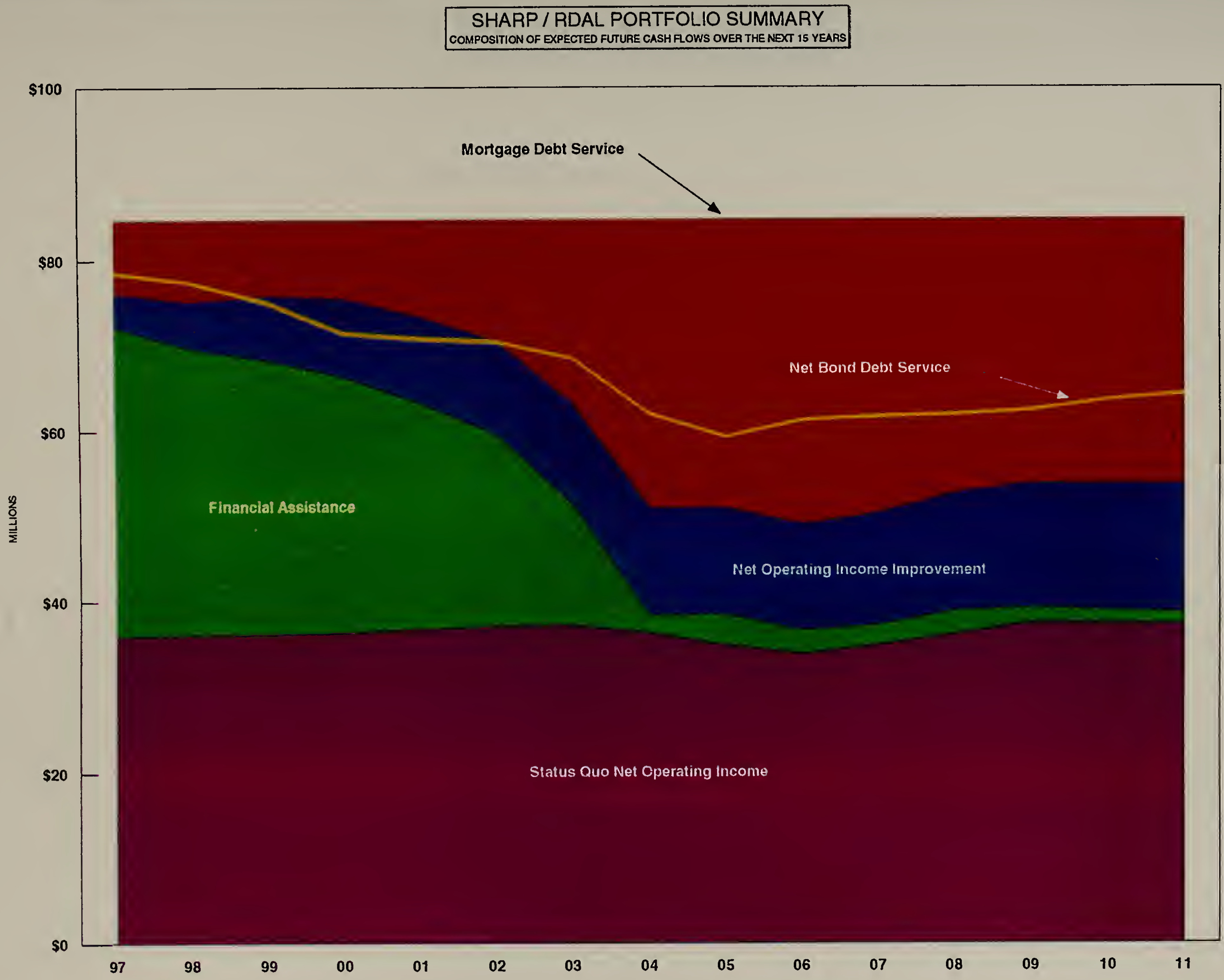

FIGURE 6

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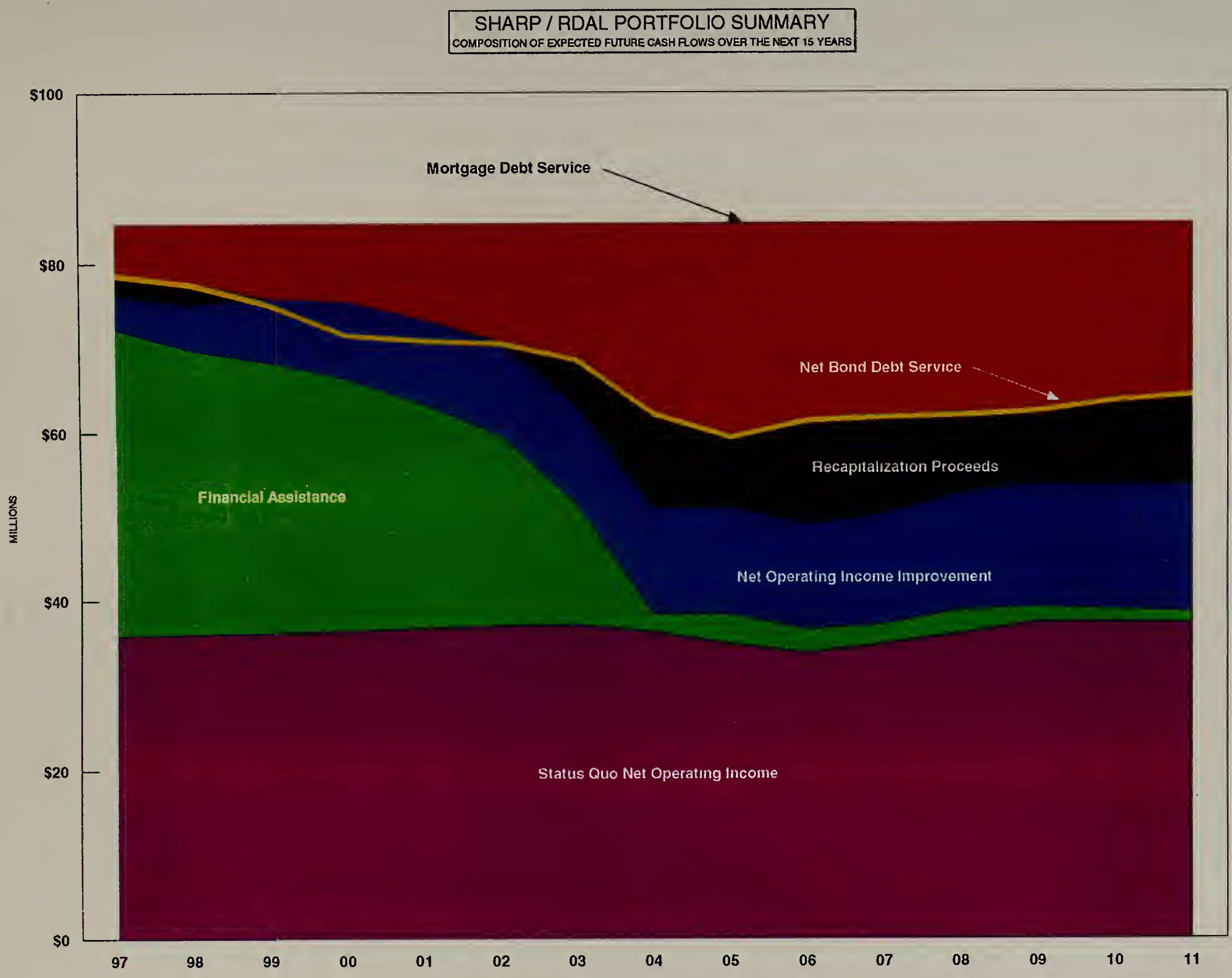
SHARP / RDAL PORTFOLIO SUMMARY
COMPOSITION OF EXPECTED FUTURE CASH FLOWS OVER THE NEXT 15 YEARS
$100
$80
$60
$40
$20
$0
MILLIONS
Mortgage Debt Service
Net Bond Debt Service
Recapitalization Proceeds
Financial Assistance
Net Operating Income Improvement
Status Quo Net Operating Income
97
98
99
00
01
02
03
04
05
06
07
08
09
10
11

FIGURE 7